

COST and MANAGEMENT

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COST AND MANAGEMENT

The Second Annual Convention

THE second annual convention of our Society, held in Montreal, September 7th to 9th, proved a worthy successor to the first one held in Toronto last year. The attendance register shows 130 names which are representative of the profession in Montreal and the Province of Quebec generally. There were only a few present from Ontario, most of the members in Toronto being detained by the Canadian National Exhibition, but the quarters in which the convention was held would not have been available at a later date. The Society is much indebted to McGill University and l'Ecole des Hautes Etudes Commerciales de Montreal, University of Montreal, for these quarters, which proved attractive in every respect, not only for the meetings but also for the exhibits of office appliances and the other features of the convention.

The program contained plenty of meat for those athirst for points on cost accounting, and the motion picture films certainly added to their interest. The addresses of a more general character were also favourably commented on by those in attendance. The discussions, on the other hand, fell a little short, but this may have been due to the thoroughness with which the speakers covered their ground.

The convention represented a great deal of work on the part of the Montreal members, and it is only to be regretted that circumstances did not permit of the detailed program being published a little sooner, as more members would thereby have been drawn from outside points. Throughout the convention the genial personality and diplomatic manner of President Belanger was in evidence, and helped greatly in harmonizing the proceedings.

Exhibitors of office appliances at the convention were:—Rolland Paper Company, Ltd.; Underwood Type-writer Company, Ltd.; Burroughes Adding Machine Company of Canada, Ltd.; G. Gestetner (Canada) Ltd.; and Felt and Tarrant, Ltd.

Golf at the Summerlea Club was arranged by Mr. D. M. Farish, and was enjoyed by several of those present. The visit to the quarters of the Quebec Liquor Commission also proved a drawing card for many; in fact there were some whose interest in the convention was limited to this event.

THE SECOND ANNUAL CONVENTION

The concluding banquet on Friday evening, and reception by President Belanger and Madame Belanger, at the Windsor Hotel, proved a fitting climax to the convention. Several prominent guests were present.

Members of the Society who were not present at the convention will have the benefit of practically all of the addresses and discussions, through this and succeeding issues of Cost and Management.

The attendance was as follows:—L. Belanger, Montreal; R. R. Thompson, Montreal; L. P. Lortie, Montreal; F. C. McElroy, Montreal; L. Rhodes, Montreal; G. Duncan, Montreal; John Duthie, Montreal; Pierre Belanger, Montreal; Gordon Lochhead, Montreal; Pierre Disautels, Montreal; C. B. Hendrie, Montreal; F. Johnson, Montreal; L. Filiou, Montreal; E. Epstein, Montreal; A. Gravel, Montreal; Professor R. M. Sugars, Montreal; D. M. Farish, Montreal; M. R. de Cotret, Montreal; G. H. Balfour, Montreal; A. H. Rowland, Montreal; W. G. Thomas, Montreal; F. Fernie, Montreal; Chas. E. Whitten, Montreal; J. R. Pidduck, Toronto; Homer H. Camerlain, St. Lambert, Que.; W. Kenneth Dunn, Montreal; A. Tingle, Montreal; J. E. McKee, Montreal; L. J. Trottier, Montreal; L. Taylor, St. Lambert, Que.; O. A. Carbet, St. Lambert, Que.; W. A. McKague, Toronto; J. Charlatt, Drummondville, Que.; J. D. Maughan, Montreal; J. K. Schofield, Montreal; E. B. Woolley, Montreal; R. H. Ecclestone, Montreal; H. V. Chambers, Montreal; H. Shepherd, Montreal; A. R. Harkness, Montreal; D. Hawthorne, Montreal; T. C. Thorpe, Montreal; Jas. Turner, Toronto; T. B. McCrudden, Montreal; Henri Viau, Montreal; A. Elliott, Montreal; G. Fontaine, Montreal; F. O'Carroll, Montreal; W. H. Badde, Montreal; H. G. Worrall, Montreal; A. F. Ramsay, Montreal; K. S. Pendock, Montreal; A. Lavery, Montreal; H. Theriault, Montreal; T. F. O'Keefe, Montreal; F. J. Cullen, Montreal; V. M. Hutton, Montreal; C. E. Atkinson, Montreal; P. W. Wright, Montreal; F. I. Greenfield, Montreal; Geo. T. Bowden, Montreal; Charles Greenburg, Montreal; R. R. Atwell, Montreal; D. R. Patton, Montreal; T. E. Skelcher, Montreal; J. K. Mowat, Montreal; W. A. Woolley, Montreal; B. O. Campbell, Montreal; W. T. Woodall, Montreal; Geo. C. Crane, Montreal; D. J. H. Murdoch, Montreal; L. A. Peto, Montreal; H. S. Hallam, Montreal; W. N. Wilton, Montreal; A. A. Swayne, Montreal; H. F. Bull, Montreal; A. Vineberg, Montreal; A. E. McKean, Montreal; J. G. Howell, Montreal; E. Robitaille, Montreal; Sam Feiner, Montreal; V. Wallis, Montreal; E. K. Atwell, Montreal; E. D. Tooth, Montreal; S. M. Weir, Montreal; H. A. Funde, Montreal; Lucien Faircan, Montreal; J. H. Wilkie, Quebec; A. G. Gibbons, Montreal; James Carney, Montreal; Jas. A. Coote, Montreal; Robert Cheyne, Montreal; H. T. Jamieson, Toronto; H. McD. Sparks, Montreal; R. J. Vogan, Montreal; R. B. Campbell, Montreal; T. G. Hutchinson, Montreal; A. T. Hirsch, Montreal; W. W. More, Montreal; C. W. Baines, Montreal; Wm. MacLeod, Montreal; G. J. Firth, Montreal; J. P. Masterson, Montreal; F. L. Sweetser, New York; N. S. Jones, Montreal; C. E. Lacoste, Montreal; T. H. Pendum, Montreal; J. Gibbon, Montreal; L. J. Grondin, Verdun; R. Joubert, St. Lambert; Geo. Martin, Montreal; C. A. McDonald, Montreal; R. S. Davies, Montreal; H. J. Grant, Montreal; J. E. Carpenter, Montreal; H. E. McNiff, Montreal; H. T. Yon, Montreal; T. Siegerman, Montreal; Beaudry Leman, Montreal; Henry Laureys, Montreal; C. Dufresne, Montreal; J. M. Dever, Montreal; A. J. Duclos, Montreal; Jonas Howe, Montreal; S. C. McLeod, New York; Alf. Tingle, Montreal; C. Barcelo, Montreal; A. Chabot, Montreal; H. Douglas, Montreal; A. E. Greening, Montreal; E. H. Wallace, Montreal.

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The Convention Day by Day

SEPTEMBER 7th

Morning Session

(President Belanger in the Chair.)

PROF. SUGARS:—The remarks that I have now to make are to be of an informal character, and I am going to make them brief, because I know that you have to listen, in the course of the day, to a good many papers on interesting things that you have really come to Montreal to hear.

As Director of the School of Commerce, the honour has been given me of welcoming to Montreal, and to the University of McGill, this gathering of men, from all parts of Canada, who have come to interchange ideas and to investigate problems common to all in this very important profession.

I believe it is the fashion to call these gatherings "Conventions." We seem to have a number of them in Montreal, because on the streets we see a number of them in picturesque costumes, and one is not certain whether we are inhabiting the cold North or the sunny climes of Constantinople or Persia.

The fact that you have assembled under the auspices of the University of McGill is a sufficient voucher for the soundness of your objects.

Very little was heard about Cost Accounting twenty-five years ago. There were other kinds of Accountants, but they did not consider that the finding of the cost price of any product was of any importance to them.

What was really relied on was the selling price of the product, and, the margin between the cost and the selling price was so great that it covered the project, and it was very rare that any waste could be made.

With that system, we know that, in different parts of the world, business enterprise brought the different nations ahead. It was in the early period, when we did not know much about Cost Accountants, that England advanced its export business, and the English became the greatest manufacturers in the world. This was due to their honesty.

If you have skilful men manufacturing, they will know a good deal about their own costs. They have known a lot

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about them in the past, and it has not served them any useful purpose except to calculate the profits they were making.

To-day, everything has changed; conditions are not fixed as they were in the old times. With the lack of quick means of transportation, and the great use of manual labour, there was not much room for fear on the part of the manufacturer. Competition was of a local nature and the laws of supply and demand were of a simple nature, so the manufacturer had it practically in his own hands.

With the advance of technical improvements, etc., and the discovery of other and better means of transportation—what had been alluded to as “the annihilation of distances,” and the adoption of scientific methods, all has changed. Competition came, from Germany, for instance, to wrest some of England’s trade.

We are now living in an age when the manufacturer has to carefully study the sources of his raw material, and know what is going on in foreign governments, and in foreign politics; he must know what new railways are being built, the tariff, and what reforms are in contemplation.

To-day he has to keep, ever in view, the fierce competition that may come to him from the most remote parts of the Globe; he must consider, Russia and China, etc.; the machinery he is using may be superseded by new inventions. The manufacturer is kept busy with problems from morning to night, and you can see the knowledge he should have.

There is another matter also. In certain kinds of manufacture some substitute may be invented or discovered that will put his product out of business.

The man who advises the manufacturer is, of course, the Cost Accountant; he must know all those things; his education must be such as to give him a grasp of the business in which he works; he must know it from every point of view.

The day is past for a man to give his whole life to one monotonous task.

The Cost Accountant, to-day, must know his business from start to finish, and, in this connection, I think it is important to allude here to our numerous cost systems.

I notice in the list of subjects for addresses here that that is one of the subjects to be considered: the Cost Sys-

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tems in the various classes of industry. I think that is where a great deal of caution is necessary. Any system of accounts must represent the whole organization. It is impossible, without a regular system of standardization, to get a system of accounting even in the same line of business, that would suit the different industries.

That shows where the Cost Accountant must be a man of judgment, not merely a man of figures, although there is much to be done of a mathematical nature. There are certain questions which arise in connection with factories: labour, methods of paying wages, where the wage system is represented by a curve or some other mathematical figure.

That is not the only thing necessary on the part of the Cost Accountant. It is much more important that he should be a man of sound judgment, as new questions are constantly arising in factories to-day. There are matters of very great importance, which concern the peace and contentment of the whole country: the question of labour, and the remuneration of labour.

If we are to do away with those strikes, which are paralyzing industry, the Cost Accountant and the Manufacturer must be able to do justice to the labourers. The Cost Accountant is, particularly, in a position to judge what the labourer deserves, and there is no doubt that it should be the aim of the manufacturer to give the labourer a proper share in the profits, and to realize that he is a human being who is entitled to a proper share of leisure and happiness.

That is one of the principal problems that will have to be considered by the Cost Accountant, because it is one of those that is threatening to upset our whole civilization. Those disputes are being made an anarchistic question, and we have what we call "Reds" in all the countries of the world.

We hope, in time, that the functions of the Cost Accountant will be extended to other parts of our life generally. For instance, it would be a great matter if, in our City Halls and in our municipalities, we could extend the proper scientific methods of the Cost Accountant; if we could only get rid of the lack of co-ordination in our City Departments. With a proper system it would be impossible for a City to do work, which costs five dollars, and charge

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the taxpayer twenty dollars; that is what we are suffering from now. I hope to see the Engineers and the Cost Accountants devote themselves to that.

I note in the program of lectures that, on Friday, one of the speakers is to address you on the subject of "Humanizing Cost Data." That "humanizing" influence is what I was speaking to you about: the wide culture that the Cost Accountant should acquire, and I don't know anywhere that he will get that better than by coming to the universities and taking the courses in Commerce that are given.

We take a great interest in Cost Accounting. It forms one of the most important and difficult parts of Accounting. Many of you are already university men, but I am certain that, in the near future, your range of work is so important and your range of duties so manifold, that it will be necessary for you to come and study this subject at our universities.

Again, on behalf of McGill University, I extend a most cordial welcome to this Association.

THE PRESIDENT: I believe that Professor Sugars' address is, what we may call, a picture, and a well painted picture, of what the Cost Accountant should be, and what he has been.

You will remember Mr. Sugars' paper, on the 26th of April, on The Origin of the Accountancy, and I think his address to-day is a continuation of that definition of what a Cost Accountant should be.

We appreciate the co-operation of the Universities, especially that of McGill, who offered a room to the Montreal chapter, and I think I speak on behalf of all when I say that we have to thank Professor Sugars for the past, the present and the future.

THE PRESIDENT: We will now have the address by Professor Thompson, for which I will ask Mr. Turner, one of our Vice-Presidents, to take the Chair.

(Mr. Turner takes the Chair.)

MR. TURNER: I did not have the opportunity of being present at the opening of the session, but I did have the pleasure of listening to Professor Sugars in the latter part of his address, and my chief regret was that he finished so soon. It is a pleasure indeed to hear such a cultured voice,

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and an added pleasure to hear such words of concentrated wisdom, and particularly pleasing to be associated in a welcome of such warmth as that which Professor Sugars has extended.

At the Convention in Toronto, last year, we felt that an added lustre was given the Association, in that it was associated with the University, and privileged to hold its first convention in a building of such beauty and educational inspiration as Hart House in Toronto.

To come to Montreal and find one's self again in a building of such beauty as this, renews the impression that the Society is looked on by the public generally as an educational influence.

Then, to hear Professor Sugars speak of the expanse of the business of Cost Accounting, and to consider the horizon, which extended before the eyes of all here, was most gratifying to every one of us, particularly to me, who, in common with the majority of those present, had looked upon the Society as having a wider scope than was originally expected of the Society of Cost Accountants.

In a few minutes we are to hear Professor Thompson tell us what Cost Accounting stands for. There has been an idea, for years, that Cost Accounting was confined to Manufacturing Costs; that it was only the manufacturer who had any desire to study Cost Accounting. We know better than that now. We have many authorities, preceding Professor Thompson, for that statement, that Cost Accounting means far more than simply Manufacturing costs.

Recently, I attempted to connect, with the idea of Cost Accounting, Cost Accounting for retailers, and others followed it out along other lines.

I am timorous of speaking before Professor Thompson, because I know he has something better up his sleeve. We could not have an authority better than Professor Thompson to answer the question of what Cost Accounting stands for. We find Professor Thompson named in the British Press as the Champion of the Canadian Chartered Accountants, taking issue with the Institute of Accountants of England and Wales, and we feel deeply indebted to him.

Then we found him deeply interested in the deepening of the St. Lawrence, so, if we listen to him, as to what Cost Accounting stands for, we will get a great deal of enlightenment.

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It is a pleasure and a privilege to call upon Professor Thompson to address us.

PROFESSOR THOMPSON: Ladies and Gentlemen:—We all know the old phrase about "Jack of all trades, and Master of none."

In my paper I concern myself more with what Cost Accounting stands for, for the business men of this Province—that, of course, is mainly in the manufacturing industry. It is always well for us to be quite sure of what we are to talk about, and, for this reason, I am going to consider what Cost Accounting stands for; what it is, and what it ought to do. For many of you it will be a re-stating of your own beliefs.

As Professor Sugars pointed out, years ago, the margin between the cost of goods and the selling price was much larger than it is to-day.

(Professor Thompson's paper is given separately in this issue.)

PROF. THOMPSON: Professor Sugars dealt with the matter generally; I have dealt with the matter, more particularly, from an accounting standpoint, but, all the same, Cost Accounting covers, not only the systematic production of data, but the running of the factory or any concern that spends money, that produces anything of any kind; it also includes a knowledge of everything that has to do with the running of that concern: its location, the layout of the manufacturing plant, the best building and equipment, and the power to be used; it has to do with all the administration, and it has to see that things go through with as little trouble and annoyance as possible; the different wage systems, organization of the stores, etc. — all this must be studied.

Now, gentlemen, you are not here merely to listen; we meet here together to exchange ideas and to get the best we can out of each other. I would very much welcome any remarks or comments from anyone in the audience, or anyone who wishes to ask questions.

THE CHAIRMAN: The meeting is open for discussion or for any questions on this subject. It is always a fortunate thing when a speaker says something with which none of us agree—I don't know if you can discover anything in Professor Thompson's speech of that nature.

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Could I throw out a pointed challenge—When he said that Cost Accounting and General Accounting should be linked up—He mentioned some other generalities, on which there might be some comment.

I leave it to you, gentlemen, to carry on the discussion.

MR. BELANGER: Do you think, on that question of linking up the Accounts, that, if you take a case where you have not the proper tools—not properly trained men to take care of Cost Accounts—if you link them up at once, would it not create embarrassment for the office staff? Certain industries sell finished goods, and, where they manufacture themselves, this linking up of accounts would lead to complications.

PROFESSOR THOMPSON: Of course, Mr. Belanger, I said "it should be the aim." If you have to work with a staff that is not very intelligent, there is a difficulty in linking up the Cost System with the General System. If the embarrassment comes in because the Cost Account produces figures that are miles away from the General Accounts—or, were you thinking of the actual working of the system itself, getting the people to supply the returns, and getting these incorporated by the Accountant in his books?

If the embarrassment comes through the Cost Accountant producing figures miles out, as compared to the general account, I should say it is a good thing to find that out.

MR. BELANGER: I have a case in mind. A party buying raw material, is tax exempt, and then they have to charge a Sales Tax; they have three classes of customers, with different prices. If you wish to line up this with the figures of the manufacturing department, and they take goods from the shelf, raw material and imported material—I have found that, even with the best help, it is rather impossible to link up the account with the ledgers.

Then, certain firms wish to take the limit for the Income Tax. I know a case where, for cost, it would be two per cent., whereas we are allowed ten per cent. by the Income Tax Department. That creates a complication even with the best of help.

I know one case where they don't want to hear of a Cost Account, but they have it under another name.

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PROFESSOR THOMPSON: Take a case of direct material charge—take a case in leather manufacture, using a lot of hides which are bought at different prices—At what price are you to charge the leather? In some concerns they buy in large lots. They may be able to work it so that, when one lot of leather is used, the cost price of that particular lot will appear on the stock card, and it will be charged into the process at that price.

In another case, when it is not easy to do that, then they just have to take a standard price, which would represent the average cost of all classes of leather purchased during the accounting period; then it is the value when you are transferring the raw material to the working process. That is transferred at the standard price, but when you come to your stock-taking, at the end of the year, you will certainly be left with a balance on that particular raw material, and that balance will show how far your average price varied from the actual price.

I know there are tremendous difficulties in a case of that kind, but I do say that the Cost Account should be checked up with the general Account.

This is very difficult in some businesses, but it is easy in others. I think, in one big concern, it interlocks right through.

MR. BELANGER: Now, about the case that was mentioned about one firm not having any strikes—What kind of incentive have they got; do they distribute profits, make the employees shareholders, or what?

MR. TURNER: With the Lever people, employees of one year's standing are given a share, or a bond, and they come automatically on to the list of profit earners. After one year in service, they are profit earners. Some of the employees are, comparatively speaking, well to do; they earn dividends in addition to their salaries.

MR. BELANGER: It is a profit-sharing plan?

MR. TURNER: Yes. We all know that Lord Leverhulme was reducing the hours of labour, and the workers did not want to adopt this.

PROFESSOR THOMPSON: He also did a lot in building good houses for the workmen. He has all kinds of things like that. He has never had a strike in any one of his factories.

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Of course, we all know that when a factory is closed it is more than not earning money—it is losing it, because there are expenses that always go on. That is why strikes are so expensive.

MR. FERNIE: Getting back to this tieing-in scheme—

PROFESSOR THOMPSON: I did not say it was a "scheme"; I said it was an "aim."

MR. FERNIE: What would you do with this problem: You accept a contract for five years, with an approximate quantity each year. You disclose in that contract the basis of the price. You state, at the time the contract is drawn, that the major raw material used is of a certain price. When you go into the market to buy that raw material, you cannot buy on the same line as that on which you accepted the contract; you cannot place a contract with the mill for three years. In your contract you stated that the price would be adjusted every three months and, according to the quantities shown, it would be increased or decreased, according to the published price of that raw material on those days every three months; in the meantime your people buy five or six lots of raw material at a different price.

What kind of an adjustment would you use in your daily cost accounting, with your general books?

PROFESSOR THOMPSON: You would need a whole set of books to answer that question properly.

MR. FERNIE: There is only one point. You have taken the business at a price and on condition that the prices shall be adjusted every three months from the date of the contract. When you go into the market to buy your raw material, you cannot buy it on the same basis as you sold your product—you have to buy in quantities.

PROFESSOR THOMPSON: There are two distinct things: the selling price, and what it costs to the customer. The selling price is regulated by the market price at certain dates. I think it is important that you should check up, as far as possible, what it is actually costing you to produce those goods.

MR. FERNIE: I am asking what kind of an adjustment would you use to explain the various variations between your purchase price and your selling price, extending over three, five or seven years.

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PROFESSOR THOMPSON: Do you mean an Adjustment account for your own benefit, or one you can show to your customer?

MR. FERNIE: It has nothing to do with the customer at all.

PROFESSOR THOMPSON: I should say this, that the cost of those goods should be regulated by the actual cost of the direct material—the direct material used. You can charge that at the actual cost of each different lot of direct material, to the stores, or charge a standard rate during the period. Then, when you take stock at the end, or if the stuff is all sold, you can charge the balance.

When preparing Cost Accounts you are out for the facts—if you want costs, you want actual costs. If you have to use an average price, you will use it, and that price must be checked up sooner or later. If you find the average price of the material is a loss then you will have to make an additional charge for the balance that remains out. I don't know how you are going to get rid of that balance—you will have to charge it out.

PROF. SUGARS: With some businesses, in a case of that kind, is it not the custom to use, what is called, a Factory Safety Account to take care of balancing any excesses, they to be balanced later by the deficits. Just let the Reserve Account look after this.

PROFESSOR THOMPSON: Yes, that is done. The balance is written off to some account for reserve fluctuations, and these balances usually work themselves out, so long as they are credits, but, if they are debits, they are not written off to periodical accounts.

MR. FARISH: It seems to me that, in a case where the raw material is largely of one basic material, I, personally, would advocate the use of a standard cost, which could be set, say, for one year, or as the material is bought; instead of charging it into the Raw Material Account at actual cost, it is charged in as standard. A man would charge the actual cost to the Adjustment Account.

PROFESSOR THOMPSON: That is a very practical solution.

MR. TURNER: If his actual cost is known, what would be the idea of that?

PROF. THOMPSON: Because the actual cost changes from day to day.

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MR. FERNIE: We do something like that now, but, I want to know the informative value of tieing in the Cost Accounting System with the General Accounts, with a nigger on the woodpile, as I have just described?

PROFESSOR THOMPSON: I thought of that when I mentioned charging in and out at the standard rate, the question of keeping track all the time, and seeing how the standard varied with the market rate. In some businesses, where the raw material does not vary much, that is a splendid solution.

Where you use a large number of raw materials, I think, where the price of the raw material varies a good deal, you will have to use standard costs.

MR. FARISH: Three or four months ago, I was in the States looking into the question of standard cost for raw material, etc. To get it down fine, they have this raw material divided into certain groups, and they get a variation by group, and apply it that way.

With reference to the control of accounts, I don't think Mr. Fernie's point comes in there. The control of the cost, on manufacturing accounts, is for a different purpose; it is to segregate your purchased material, which you may buy for re-sale, from the stock which you buy as raw material. I think that is more the point that Professor Thompson referred to; it is the control from the manufacturing end.

I don't agree that it is impossible to control manufacturing costs. Any company, however small, may do so, for this reason, that, through the advance of science, etc., we have now got such mechanical machinery, appliances, etc., etc., that, if you use a little common sense and eliminate unnecessary detail, you can establish these figures, at very little expense.

PROFESSOR THOMPSON: Do you think it would be possible to do it for any manufacturer?

MR. FARISH: Yes.

PROFESSOR THOMPSON: If you had this paper, you would not have put in that section where I say that I know it is more difficult in some cases?

MR. FARISH: I feel that you can eliminate the majority of the detail work, and still keep the control, particularly in a company where you are manufacturing and jobbing. I

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would say that it is vital to keep the control of stuff you buy for re-sale from what you buy for manufacturing.

PROFESSOR THOMPSON: I feel very strongly on that point. You say you think every business ought to be able to do it. I have the feeling that I would like to see the business where it is absolutely impossible. The main trouble is the question of human nature.

MR. FARISH: You can buy an adding machine now for a hundred dollars.

PROFESSOR THOMPSON: It is a question of human nature. It is going to put them to a lot of trouble if they go through with the whole system to see if they can link up a Cost System with the general books.

At any rate, I covered myself there, but I am very glad to hear an experienced Cost Accountant, like Mr. Farish—gratified to think he feels more strongly on the matter than I do. I repeat, it should be the aim of every Cost Accountant to link up his system with the general accounts; one should always be cross checked with the other.

MR. FERNIE: Do you mean to prove your profits by your bank balance?

PROF. THOMPSON: At present I have a bank credit balance, but the trouble is, there are cheques drawn against it.

MR. TURNER: Suppose I said that Cost Accounting stood for Cost of Sales, rather than Cost of manufacture—would that be challenged?

PROF. THOMPSON: It costs you money to sell goods. The Sales Department ought to be costed up the same as any other department. I quite agree with you, Mr. Turner.

MR. TURNER: You would take in your adjustment, and all other things, into your Cost. You have to fix your selling price on the same ratio, based on the market price of your principal raw material. Any adjustment you require to make would really be included in the cost of your sales.

PROF. THOMPSON: It comes to that, but I would not put it to the account that shows gross profit.

One particular gentleman, at the Convention last year, wanted to bring in the selling costs of the goods, and, I think he was going to have this taken into stock, and make allow-

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ance for manufacturing cost administration, and an allowance for selling goods, and they were not sold.

MR. TURNER: My point was that the Cost of Sales is inclusive of all our manufacturing costs, overhead and any losses we incur in connection with buying material. This is not part of our manufacturing costs, as contracted.

We buy goods, and pay money for them, and it is our general accounts that take care of that. I suggest that, perhaps, we are not wide enough in our scope when we confine the definition of Cost Account to mere manufacturing cost.

PROF. THOMPSON: You must have the whole business—the administration and the whole thing. One of the things that ought to be costed up—take the question of discount on purchases—discounts on sales—I mean cash discounts, because the Accounting Department is keeping close track of its Accounts Receivable and its Accounts Payable. We must be very careful with the Accounting Department, to see how their discount charges compare with collections.

If you get a good man in charge of the accounts, he will very often save the concern money, by getting the money in and taking all the discounts he can, while a very sleepy man would not do so.

MR. TURNER: I suggest that we formally record our appreciation of Mr. Thompson's paper, and I am glad to know that it will be available to us later, for closer study.

On behalf of the Society, I thank Professor Thompson for his paper.

WHAT COST ACCOUNTING STANDS FOR

What Cost Accounting Stands For

By PROFESSOR R. R. THOMPSON, M.C., V.D., A.C.A.

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McGill University, Montreal

(Before the Annual Convention, September 7th)

IT is well at the commencement of a Convention like this for us to be quite clear as to what we are going to talk about. For this reason I am going to consider, with your help, what Cost Accounting Stands For—what it is, and what it ought to do. For many of you it will be a restating of your beliefs, for others it may help to clear up mis-apprehensions as to what the functions of Cost Accounting really are.

Years ago the margin between the cost of goods and their selling price was very much larger in most lines than it is to-day. Most of us know that only too well, and we also know that the necessity for the most efficient organization and management, and the closest analysis of expenses is felt as never before. Again, most manufacturing plants have grown to such a size that personal supervision of every portion by the chief executive is utterly impossible. They have got to depend on whatever means are available to give them a mental bird's eye view of their plants. The better the view they get, the better can their supervision be. The worse their view, the worse their supervision. That view will be obtained by periodical statistical and other reports, by graphic charts, and so on. Here again, I come to another truism: if those reports and charts are correct, and give sufficient detail, they form a sound foundation for the direction of the affairs of that concern. If they are incorrect, or do not give sufficient detail, they are like bad charts to a mariner; he will flounder about along dangerous coasts, which, so far as he is concerned, are practically uncharted, and will not know he is near danger, until his ship has struck a reef.

Yet another truism: the finest charts in the world are of no use to the mariner who does not know how to use them. The best collection of statistical reports and graphic charts are useless to the management who ignore them.

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In the modern manufacturing business, we require two things:—

- (1) Statistics, reports, and graphic charts, which are reliable, and give sufficient detail to be of value, and
- (2) Proper study by the management of those reports, etc., and proper heed to be paid to their lessons.

Now, these reports regarding the workings of a manufacturing concern can only be obtained where there is a good system of Cost Accounts in operation. In other words, Canadian manufacturing, constructional and mining businesses must have good systems of Cost Accounts, and they must have executives who know how to use them.

Cost Accounting is a branch of General Accounting. Its functions are to analyze and record the cost of various items of material, labour, and expense incurred in the operations of a factory, and constructional work, and so on, so that the total cost of finishing a certain quantity of goods, or of finishing a certain work can be ascertained with as much exactitude as is possible. By this means the management know what certain goods cost to complete, what a certain price of constructional work costs to finish. The management will watch day by day how the costs are mounting up. A daily report can be made of production in the various departments. And so on. Cost Accounts should give rapid information as to where expenses are rising out of proportion to a rise in the volume of production. Cost Accounts are mainly concerned with full details of the immediate present, so that the management may learn things quickly, and more easily control the future by changing a policy before too much money has been lost. Cost Accounts are the daily or weekly newspapers of a business. The General Accountant is more of an historian. He is more concerned with correctly recording everything that is going to affect the whole business financially; he takes a broad view of the past, and his figures show broadly what profit or loss has been made.

Exactly where profits and losses have been made the general accounts do not always disclose so easily. Even if they do indicate their location fairly well, the information is usually not supplied quickly enough to prevent a heavy loss of some kind. This applies even to concerns which produce a monthly statement. Many businesses do not

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know what has happened until several months afterwards—when all that can be done is to write off the past loss, and, if it has been located with any degree of certainty to try to avoid it in future.

A good Cost Accounting System should disclose serious wastage, falling off in production, and so on in a few days. To-day, the manufacturer must watch his expenses and production with great care, or he will find himself thrust out by those who do. Careful estimates of cost must be made. Good guesses as to cost on the part of foremen will do no longer, no matter how clever those foremen may be.

Within the last ten years they had an investigation in the United States as to how many businesses were paying, and how many were not. Out of a quarter of a million business corporations, the majority were making no profit at all. Furthermore, statistics showed that only 5% of the manufacturers knew what their goods cost them to make. In other words 95% were working in the dark.

We want to avoid such a situation in Canada. How far such a situation exists in Canada we do not know. But this we know, that we must do all that we can to avoid it in Canada as soon as possible. I do not believe that it will be a very difficult matter, if every Canadian manufacturer makes sure that his business has the best Cost Accounting System for it. Most concerns already have in use, forms which, with little alteration, can be adapted, and incorporated into a System of Cost Accounts. Most concerns already have good stores and stock records, materials and stores requisition forms, time-tickets, wages-sheets, production reports, job-cards, and so on.

Very little more is necessary, so far as returns are concerned, than a few additions to the form already in use, and the addition of cost sheets, and statements dealing with the distribution of the general Factory Expenses. When the installation of a system of Cost Accounts is being considered I always recommend a policy, where forms and returns are concerned, of as little alteration as possible of whatever forms and returns are in use.

Let us consider the advantages of a good System of Cost Accounts.

The management will be supplied with a continuous report of its expenditure in the Material out of which the finished Product is made, in the Wages of the men directly

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at work on production, in the consumption of stores, in the quantities of work finished, and in such expenses as the wages of men working about the factory, although not working on the goods being finished. This will be supplied separately for each department, or for each class of goods, or for each job or contract.

Under the direct review and control of the management comes the entire business.

The records follow the material from the time it enters the store until it goes into warehouse as the finished product. They show the time, labour, and expense used up in its manufacture. They will show abnormal losses of material, wasted time, cost of defective work, and where it occurred, and will usually indicate good and bad supervision.

The costs of production for different periods, and under different conditions are recorded. Various methods of manufacturing can be compared, bench-work with machine-work, day-work with piece-work, and so on. The Cost of a job just finished can be compared with the estimated cost, or the cost of a previous and similar job.

With a costing system it is possible to set up definite standards in factories and on construction works. This will help in regulating the flow of work, and seeing that different departments keep in time with each other.

The cost of an article or job being known quickly with reasonable accuracy, the management can see how their selling prices compare with their costs, they can cut out the manufacture of articles being manufactured at a loss, and press on with the production and sale of profitable lines. Where the management can fix its selling price for a contract, there is less danger of it taking on work at a loss, and allowing to pass by contracts which they could complete at a profit. Incidentally, where salesmen are paid by a commission on their profits, correct rates can be ascertained.

A Costing System will provide for the keeping of detailed inventory records of

Raw Material
Stores
Finished Parts
Finished Goods

which should be written up daily. There will also be records of work-in-process of manufacture. From these

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records, returns can be prepared which will show very quickly (a) abnormal losses of material and stores, (b) which stock is becoming obsolete, (c) where stocks of material, stores, finished parts, and finished goods are getting low, so that the purchasing Department or the factory will have to replenish them, (d) what are the fire insurance requirements.

Wherever possible, the costing system should link up with the general accounting system. In some classes of concern this is easy, in others more difficult, because of very practical difficulties. In some it may be impossible without detailed work, the expense of which is prohibitive.

This, however, should be the aim of those controlling the accounting systems of a concern; because the cost accounting system and the general accounts should be checked up against each other. Wherever this is done, valuable information is invariably obtained. This is especially so, where prices have to be based on the costs as estimated within a few days after the completion of a job. It is sometimes found that some of the expenses for the completion of jobs have been omitted, and a selling price has been made which is far too low.

The value of the Cost Accounts for the purpose of amplifying the periodical statements produced from the general Accounting system is, I think, too obvious to you gentlemen, for me to need to lay stress on it.

In conclusion may we consider some of the objections, which one hears raised against the installation of Costing System.

There is the manufacturer, who says that he has a unique business, has no competitors to fear, and can fix his selling price as he thinks fit. That may be, and he may be making good profits. Nevertheless, waste of material or time may go on, of which he knows nothing, and which might increase his profits still further, if it were stopped. It sometimes happens that these over-confident people are the greatest enemies of themselves.

There is the man, who says that it would cost too much to install and to run it. A great deal depends on how it is installed and as to how he arranges the running of it. Probably, if he really inquires, he will find that the cost of

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installation is small when compared with the wastages going on in his business, and when compared with the loss of profits through working in the dark and guessing at his costs. He will also find, in all probability, that he can run a simple and efficient costing system quite economically, if he studies carefully the organization of his plant and staff.

There is the man, who objects to a Costing System as more "red tape." Of course, if he is thinking of a flood of fresh forms, very complicated and keeping the foremen so busy filling in records so that they cannot get on with their proper jobs—if he is thinking of a system so complicated that it will not work, I am not. I prefer Costing Systems to be as simple as possible, and I have already referred to the incorporation of old forms in a new system so far as can possibly be done. Some costing systems fail through over elaboration; but that is a fault which the experienced cost accountant will studiously avoid.

In point of fact, the installation of a properly planned and efficiently operated system of Cost Accounts usually means the elimination of unnecessary forms, and numerous "short cuts" for the summarizing of costing data for accounting and other purposes.

I must not detain you longer, gentlemen, but you can see that Cost Accounting stands for a good deal. It covers not only the systematic production of data about the running of a factory, or in fact any manufacturing business, but also a knowledge of everything to do with the running of such a concern:—its location; the layout of the Manufacturing Plant; the best Buildings and Equipment and Power to be used; the internal Administration; the functions of the Works Manager and his subordinates; labour and its payment; different wage-systems; organization of the stores and so on.

All of these must be studied to-day by the manufacturer, who is going to take advantage of the great industrial developments impending in this country. There is no time for me to speak of the special need for Cost Accounting in Canada.

IS BUSINESS A PROFESSION?

Is Business a Profession?

By BEAUDRY LEMAN

Vice-president *Canadian Bankers' Association; General Manager, La Banque Canadienne Nationale*

(Before the Annual Convention, September 7th.)

LA FONTAINE, in one of his charming fables, tells the story of a certain raven, who, perched on the limb of a tree, was holding in his beak a particularly appetizing piece of cheese, the scent of which attracted a fox wandering in the neighbourhood. The clever and always resourceful fox, having ascertained that strategy was necessary to induce the raven to relinquish his delicacy, and no doubt thinking this particular bird was almost human, decided to tickle his vanity. He paid the raven a compliment and told him how pleased he and all the other inhabitants of the forest would be to hear his voice. The raven yielded, opened his beak and lost his cheese. I appear before you to-day, having given in to the blandishment of a wily fox, our friend Mr. Lorenzo Belanger, your President, who paid me the compliment of inviting me to address this distinguished audience, but I feel very much like the raven in LaFontaine's fable, who, humbled and repentant, swore somewhat tardily that he would not be caught again.

Whilst endeavouring to gather some food for thought which might be considered palatable to a Congress of Cost Accountants, I was successively attracted by a variety of problems in costs, the solution of which would no doubt prove interesting to our contemporaries. After thinking over these subjects, I came to the conclusion that you alone were qualified to deal with them and I beg to submit some of them for your expert consideration:

- (a) What has been the cost in ink and paper of the Geneva Conference on the limitation of naval armaments, other items being chargeable to the general expenses of the shipbuilding companies?
- (b) What is the cost to conservative business men of travelling through the Province of Quebec, his hotel and railway expenses being otherwise negligible?
- (c) What has been the cost to Canada of allowing hundreds of thousands of its sons to settle in the New England

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States, where they have provided skilled and reliable labour for the development of the cotton industry in that section of the United States?

(d) What is the cost to conservative business men of providing a liberal education for their fellow citizens?

(e) What is the cost to a man's reputation and self respect of attempting to deliver an address without the necessary qualifications or preparation?

Baffled and embarrassed at every step in my endeavour to find a subject matter in the field of costs, I made a rapid mental survey in the domain of values, hoping to encounter lesser difficulties and possibly a ground of common understanding. I very soon found that values were decidedly relative and that the standards for their measure varied considerably. I was stumped at the very beginning by the first and foremost value, that of the human being. Our friends and neighbours to the South place a very high value on a 100% American, who may happen to be the son of a Scotchman while his mother was English; he may have been brought up under the direction of a French governess and have studied science in Germany and arts in Italy; he may subsequently choose as his better half an Irish girl but these considerations should not enter into the question and we are not talking logic but sentiment. The famous melting pot takes care of various ores poured into it and turns out a product which is 100% pure gold, which should read "Pure American." Of course, in this wicked world, there are some sceptics, some unbelievers and a great body of citizens from Missouri; these morose spoil-sports are always taking the joy out of life and have the unhappy faculty of looking at the reverse of the medal. They do not take everything for granted and dare to question the infallible power of the crucible; they venture to state that the melting pot may after all be a very efficient and modern concrete mixer. This piece of machinery may churn and mix for hours and months, and its output, when turned into a structure, may have all the outward appearances of a monolithic mass, but if one venture to scratch the surface it will be found that the stone, the sand and the cement have retained their identity.

We in Canada do not value as highly the uniformity of materials entering into the national and social structure and are satisfied to use together, without any endeavour to blend

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them into a single mass, steel and stone or wood and brick. We consider the social edifice so constructed worthy of preservation, having weathered many gales and storms, and possessing certain qualities, notably elasticity, which may be a fair compensation for a certain apparent lack of homogeneity. Some people prefer pure Carrara marble whilst others are great admirers of mosaic. There is justification for nearly all tastes and preferences, but I have been impressed, when visiting the ruins of Pompei and Herculaneum, by the beautifully preserved mosaics of ancient times, which have retained their original beauty of design and vividness and richness of colouring, while alongside the columns of pure marble are but shapeless fragments or heaps of dust.

I was making rapid progress towards the elimination of all questions which could be made the subject matter of an address before this gathering, when I came across the announcement of this Congress, wherein was stated that I was supposed to discuss before you whether business was a profession or not. I was not aware until then that this was to be the title of this paper and by the time I am through reading it I am sure you will share my conviction that any other subject would have been preferable. Authors and novelists very often write their books and essays before choosing their title. I do not know the reason for this procedure, unless it be that, having completed their work, they are in better position to ascertain what they have been writing about. You will appreciate that I am now greatly handicapped by the scope and importance of the subject under consideration. There is only one redeeming feature and this will be found not in this address but in the report of proceedings of the second congress of the Universities of the Empire held in 1921. I feel that your time would not have been wasted should you not only read but ponder over these remarkable papers, prepared by the most eminent men, on matters of education and professional training. You will find therein the most illuminating information and the matured opinions of the most high-minded, public spirited and highly cultivated men of the British Empire. It would be the height of temerity and presumption to attempt to summarize the views expressed by these talented and experienced men and the only alternative was to quote freely from them, which I had no hesitation in doing.

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Reverting to our subject, and leaving to others the right and the care of christening the responsibilities, activities and qualifications of business men, I venture to submit that the field of their endeavours is now sufficiently varied and broad to entitle them to the advantage not only of professional training, but, above this and of greater importance in my estimation, to the benefit of university formation.

Quoting from Sir Robert Falconer, I believe that: "a university is not a set of public utility schools, bundled together by the tie of a common administration, nor yet a machine compacted of many parts. It is an organism with an intellectual, nay a moral spirit, which gives it unity and life. Life involves structural integrity, each part supplying new elements to the other, fresh energy coursing from the centre to the remotest tips, the absorption of external substances and their transmutation into growth, and a renewal of the whole man by the process of assimilation. Routine professionals, who cultivate one corner of a university separate and apart may get a bare subsistence, but their trees soon grow scrubby."

If the university in any community, group, nation or country represents and inspires life as it is understood and practised, how is it conceivable that business can be divorced from the university? How can the duties of business men be discharged without knowledge of the relationship of their activities with politics, sociology and economics? We hear a great deal nowadays of too much politics in business and not enough business in politics. And yet, business men as a rule, for reasons that are very often legitimate and more frequently unconvincing, shun politics in all its forms and manifestations. Is it not within the scope of the general educational policy of universities to bring about a better understanding of the problems facing men who have specialized in the various fields of human endeavour? Specialization has received great impetus in modern times, professionally, commercially and industrially, and it is only fair to acknowledge the progress it has brought about and the remarkable achievements due to the concentration of mind, energy and resources in one direction. The danger of specialization lies in its prematurity bringing about excessive exclusiveness. It should not be attempted before a firm and solid ground work of general training and education is obtained through university formation. I am firmly con-

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vinced this is particularly desirable as regards business. Mr. Desch, of the University of Sheffield, summarizes his views on the subject as follows: "The man who has been highly trained in a specialized study but who has never conceived of his science in its relation to the whole body of knowledge is imperfectly educated. The scientific recluse may do work of great value, and some of the greatest intellectual discoveries have demanded such intense mental concentration as to absorb the whole energies of a thinker, but such cases are the exception and cannot furnish a guide for general imitation. In a scientific leader of industry, whose functions include the interpretation of science to the world through its practical applications, narrowness of outlook is a grave defect, as it is in the public administrator, who will be increasingly chosen in the future, as we hope and believe, from among those trained in the methods and results of science."

It is an ever present temptation in schools, colleges and universities to equip boys with the intellectual tools immediately required for their livelihood, to the detriment of knowledge and education which may become necessary 10, 15 or 20 years hence. The more complete equipment will be called into use and prove of vital importance when the subordinate official rises to the direction and management of an undertaking. Please do not believe that I am deliberately ignoring conditions as they are and that I am forgetting that training is often secured by personal self-denial or sacrifice on the part of parents or relatives. I am aware that a large number of students must rapidly become self-supporting and that, moreover, their service should be rendered valuable to their employers in the shortest possible time. I have in view the many thousands of parents who are quite capable of giving their children a thorough and complete university training but who seem as anxious to see their children become wage earners prematurely as the children are themselves to work for a salary. In later years their equipment is shown to be insufficient to do full justice to the positions they would occupy but could not fill.

The days are past when a boy, having completed his high school studies at the age of 16 or 17, was supposed to become initiated to his business career as a trader, manufacturer, or banker, by sweeping or dusting the office. The impression still persists that the training of a business man

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has to be achieved exclusively from within the particular commerce or industry in which he is to earn his living and that any outside theoretical training is so much lost time and cumbersome useless baggage.

Please bear with me if I consider it necessary to bolster up my argument by quoting the opinions and observations of men of authority. Bacon says: "For if men judge that learning should be referred to action they judge well; but in this they fall into the error described in the ancient fable, in which the other parts of the body did suppose the stomach had been idle because it neither performed an office of motion, as the limbs do, nor of sense, as the head doth; but yet, notwithstanding, it is the stomach that digesteth and distributeth to all the rest. So if any man thinketh philosophy and universality to be idle studies, he doth not consider that all professions are from them served and supplied. And this I take to be a great cause that hath hindered the progression of learning, because these fundamental knowledges have been studied but in passage. For if you will have a tree bear more fruit than it hath used to do, it is not anything you can do to the boughs but it is the stirring of the earth and putting new mould about the roots that must work it."

I beg to be allowed to also quote my good friend, Mr. Edouard Montpetit, Professor at "l'Ecole des Hautes Etudes Commerciales," who is to attend one of your functions and who has done so much to encourage the study of economics in the French-Canadian element of our population, having been a pioneer in this realm, admirably served as he is by a highly cultivated mind and a wonderful gift of expression: "In the course of the 19th century, events have forced upon universities a new orientation. The revolution born of the progress of industry, one of the most conspicuous facts in the history of the world, has given rise to the economic movement which characterizes our time. It was realized that scientific organization was necessary in the field of industry and commerce and that the superiority of certain peoples was due to their native qualities increased tenfold by an appropriate teaching which proved to be a discipline. The number of professional and technical schools increased, wherein the teaching of commerce as an art was specialized, so were the practice of affairs, the fitting and management of factories and even the various trades.

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Everything was made scientific, perhaps to excess. Each and everyone desired above all to be practical, to accomplish quickly and in quantities. The secret of rapid and immediate success was demanded of teaching. Immediate results and material achievements had so deeply borne upon the will of nations, that the century made great by science, had nevertheless forgotten, through daily contact with the marvellous, the importance of scientific function at least in economic production and in the organization of enterprises. For a long time official doctrines have known none but the three traditional factors: nature, capital and labour. Of spiritual capital, accumulated like the other through centuries, nothing was said, and labour, ill defined, meant merely the effort of performance. Intellect is now recovering its rights. Students in political economy have distinctly laid emphasis upon the economic function of science. Human activities, construction, operation, maintenance, administration, are dominated by the brain workers striving with the assistance of the physical workers, but never can useful manual work be done without the helpful guidance of will and reason."

Treating another aspect of modern business, Mr. Montpetit says: "Specialization should be preceded and accompanied by deep general culture, so as to train citizens who will spread civic morals, which are but the flowering of morality, and insure the beaming of the elite on society. The man who knows his trade, who possesses throughly all the means of action of his profession, decidedly serves his country in his own place. In the final addition, he is a unit whose worth I do not undervalue. Without him the social objective,—the conservation of strengths for example or the utilization of knowledge—would not be reached. But is it enough to execute perfectly? Does proficiency take the place of conscience? Instruction must prepare for life, such is the common saying; and already in the year 1895 Brunetière rebelled against the narrow and utilitarian side of such a formula. Instruction must be social. The elite is not created with instruments alone. It knows and it serves. It receives a double function, which adds itself to the professional function. This is the civic function."

One more opinion on this aspect of the question is from Sir William Ashley, Professor at the University of Birmingham, who says: "The mission of the university to-day is

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to put somehow the university idea into the heads of that great majority of the commercial community which at present does not send its sons to the university at all and will only send them if it can expect to receive most of them back again to commercial life. We shall do an immense service to the country if we can succeed in inducing them to send their sons to the university instead of taking them straight from school into the works or counting house." And to what purpose he states as follows:—"The education which alone deserves the name of a university education is one which aims at training the judgment, not the memory or technical aptitudes. I do not indeed think of the university merely as an organization for formal instruction. Subjects of instruction in themselves directly and obviously appropriate to a future business career are capable of being handled in two very different ways: In a way which burdens the memory with unconnected facts and rules, and in a way which exercises the reasoning faculty and becomes the vehicle of real education. Commercial education in our universities must never be technical in the sense of the technician. It must be humane also and aim at the understanding of men. And the fulfilment of this, its own, purpose is also the fulfilment of a social function."

Let there however be no misunderstanding; business success, money making, great achievements in the world of trade, commerce, finance and industry, never have been, nor will they ever be purely a question of intellectual culture, nor even solely a question of developing, through study and observation, a well balanced judgment. Other qualities are indispensable and will power, perseverance, foresightedness, hard work will remain the solid foundation upon which success will rest. If character is to be considered separately from intelligence and if moral qualities are pitted against intellectual refinement, the former will invariably assert their supremacy. Too many people are prone to believe that the formation of character and the training of the intelligence do not go together and that a choice must be made between the two. One is no substitute for the other and the goal towards which the university should bend all its efforts is in the converging development of both to turn out a complete man. Here is how Sir William Beveridge, Director of the London School of Economics and Political Science, deals with the attainments requisite for the social

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or business leader: "Just as every citizen in a modern community needs the elementary powers of reading and writing, so every well educated citizen, that is to say, every citizen who is to count for more than one in the community, who by advancing knowledge, controlling business or government, or in other ways, is to influence hundreds, perhaps millions of his fellow citizens, must, if he is to do this well, have certain further powers developed in him, such as method, accuracy, power of concentration and a logical habit of mind. To get these, he must submit his mind to mental gymnastics, just as to get strong and efficient muscles, he must go through bodily gymnastics. He must learn to take hard mental exercise, even when he thinks it dull or finds it tiring. This mental gymnastics for the training of the mind is not, of course the peculiar property of any single branch of study."

We have seen that leaders in business should cultivate intellectual attainments and develop qualities of character. There is another requisite to a liberal education for business men and that is the bringing of man into harmony with his environment. "There was perhaps a time when the dominating element in man's life was nature. In modern times, the dominating element in man's environment is not nature but his fellow man. The main danger to man and to his civilization now comes, not from nature, but from man's own warring passions and ideals; his most urgent study is not nature but himself. There can be no more urgent task for humanity than to diminish the causes of internal and of external conflict by bringing about a better understanding of the laws which bind men together and govern their relations as economic and political units. That is the general argument for emphasizing the importance at this stage of human development of the study of economics and politics, not by some specialists only but as part of every liberal education."

We have reviewed briefly the expressions of opinion from scholars and professors, whose experience is gained, if not exclusively at least principally, from their observations made from without the business life and from their daily contact with students seeking efficient training and preparation for their careers. I have personally derived a considerable measure of satisfaction in finding expressed in a clear, concise and elegant manner thoughts which have from

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time to time occupied my mind but which had remained somewhat indefinite and uncrystallized. It is indeed worth while to investigate if the views coming from within the business life coincide with and confirm those elaborated by educators and teachers. Mr. C. E. Neill, President of the Canadian Bankers' Association, at the last Annual General Meeting, refers to this question in the following terms:—"The financial structure in Canada and in the world at large is constantly becoming more complex and it is of the utmost importance to the future of Canadian finance that men of broad vision and wide background be developed. Our gratitude is due to Queen's University for the contribution which her Faculty are making to the financial community throughout Canada. The University of Toronto is worthy of special recognition on our part for the work which has been done in providing lectures and discussions for the bankers of Toronto. McGill University has co-operated to the full in every effort which has been made to interest Montreal bankers in matters of financial theory. The problems of finance are sufficiently complex to warrant our securing every assistance from theoretical economics as well as from practical experience in finding their solutions. Men with college educations are taking increasingly important parts in the world of commerce and I look forward to a time not too far distant when we shall find a larger number of college graduates in the banks.

"In making an effort to improve our personnel, we should hope to find something more than Foreign Exchange or Credit specialists. It is most important to us that we have men of broad culture and commanding influence in our ranks to whom the public may look for leadership in matters of both public and private finance. The recognition of the Nation's need for such men leads me to hope that both the individual banks and the Bankers' Association will take an increasing interest in this problem of the development of financial leadership in Canada."

Mr. Owen D. Young, Chairman of the General Electric Company of the United States, in his address, delivered on June 4th, 1927, dedicating the new building comprising the George F. Baker Foundation of the Graduate School of Business Administration, Harvard University, speaks as follows: "Business Managers are now considered as trustees of the whole undertaking, whose responsibility is to see to

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it, on the one side that the invested capital is safe and that its return is adequate and continuous, and on the other side that competent and conscientious men are found to do the work and that their job is safe and their earnings are adequate and continuous. We need today more than ever before men to administer this trust, who are not only highly skilled in the technique of business—men who have not only a broad outlook in history, politics and economics—but men who have also that moral and religious training which tends to develop character. Harvard is to be commended for requiring as a basis of entry to this school a cultural qualification. In no other profession, not excepting the ministry and the law, is the need for wide information, broad sympathies and directed imagination so great. Who can say that this may not foreshadow the time when similar qualifications, evidenced by a certificate from this or like institutions shall be required of men who desire to enter on a business career."

I would like to clinch my argument by quoting what the Principal of McGill University, Sir Arthur Currie, had to say of technological education and which is admirably fitted to business training: "To meet modern conditions University Courses should embrace not only work which is usually required in the study of professions, but they should include instruction in the field of economics, especially in those branches of this subject which deal with the relations of labour and capital, with the all-important questions of Bonds, Stocks, Debentures, Balance-sheets and with the financing of great industrial enterprises. A knowledge of the elements of law, as bearing on these, is also of importance."

President Lovell of Harvard University has referred to business as "The oldest of arts and the newest of professions." Taking this for granted it behooves business men whose rights have been acknowledged to courageously accept their responsibilities and assume, without shirking any of them, all the duties of the calling, and in this manner only will they receive the great ultimate endorsement of their claim through the "Vox populi, vox Dei."

The Value of Cost Accounting in Canada

By COL. W. BOVEY

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(Before the Annual Convention, September 7th.)

PERMIT me to congratulate you on the formation of your Society, and to assure you of our hearty co-operation with you. I also wish to express our great pleasure in having you hold your meetings here, and to assure you that you will always be welcome with us.

Your Association is embarking on a course which, I am sure, will be a successful and useful one. Your profession is, perhaps, new, but I believe it is a very important one. I should like to tell you why I agree with you, and of the responsibility which I believe to be yours.

I suppose that, like myself, most of you are Canadians, and that in your school or college days you learned some Canadian history. If so, you have been more fortunate than I, because I had to learn it for myself.

I suppose you learned about Jacques Cartier, Champlain, Maisonneuve, Montcalm, Wolfe, Durham, Cartier and Macdonald; you learned about Confederation and you learned about the great war, but, have you ever thought how little you did learn about the history of Canada.

It is our tradition, inherited from Europe, that history consists of Wars and Politics, and that the most important people in every nation were engaged in one or other of these activities. So, in Canadian History we find pages and pages of war and pages and pages of politics, and very little of anything else.

If we look at the field of Canadian History, without any preconceived ideas, we shall get a different view of our History. Our History is one of economic and educational progress, commerce, and the conquest of half a continent.

Confederation was only one way in which the people expressed their determination to brook no hindrance. The great war was fought by civilians, who aimed at efficiency in order, the sooner, to get back on the job. Cartier and

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Macdonald sunk private enmity, to devote themselves to the Country.

Do not think that I do too little honour to the great heroes of war, but, our History has never gone enough into the triumphs of peace.

The first ocean vessel was made by Molson, of Montreal; Sam Cunard, of Halifax, established the first ocean-sailing; the Intercolonial Railway was the longest railway in the world.

How many of us know the real story of all the achievements which have gone to the making of Canada? There are great things in this history of ours.

In 1850 Hon. George Young and his colleagues set about the deepening of the St. Lawrence, which brought Montreal nearer to London than New York.

In 1885 happened another event, the Canadian Pacific Railway was finished. We can only realize the courage of the syndicate which brought about that great work when we think of the barriers of the Rockies and the Selkirks, and the whole population, west of Manitoba was only a hundred thousand.

In the meantime the Bankers and Merchants were all doing their part. The assets of the Bank of Montreal and the Royal Bank, in 1897, were ten times those of all the banks in 1867; foreign trade is twenty times what it was in 1867; our wheat production is twenty times what it was in 1867.

You, Cost Accountants, are going to have a great deal to do with History. The History of Canada will be an Economic History. Economics is only one way of saying Business, and Business means Exploration and Exploitation of the national resources, through exportation, transportation and manufacture.

Our great men are not only the leaders of our armies; every man who contributes to Canada's progress is entitled to a place on the Hero Roll.

We are in business to make money; we expect our Country to provide suitable legislation and to make money as easily as possible, but, I do believe that most of our men try to do a little better, because it is for Canada and Canadian progress.

I don't pretend to be an efficiency expert, but I do believe that Canadians could afford to put in a little more

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effort. We are so likely to complain of the weather, the tariff, or the wealth of the United States, instead of giving more attention to running our affairs better.

Some of our Canadian undertakings have not had the success we should have expected. We can make just as good shoes as the Americans; our labour is better, and more reliable, and so is our motive power, yet, some of our manufacturers fail. All kinds of reasons are given, but the layman wonders, because his business succeeds, in the face of American competition.

It seems to me, not being an economist, that there are three factors which control success in business: first, Enterprise; second, Science and Skill; third, and this is where you come in, Cost.

The man who has no enterprise has no business to be in business. The enterprising men are those who, perhaps, take risks, who buy and sell; they get, and they deserve, the lion's share of profit.

The enterprising man calls to his aid men of skill: the scientist, the engineer, the doctor, the inventor, the chemist, the mechanic. It is only with such assistance that he can secure the advantages which modern advance has laid ready to his hand, and all the enterprise and all the skill are not going to ensure success, alone.

The final figure, which makes the result a plus or a minus quantity, is Cost. You know more about this than I do.

There are three striking examples that occur to me. First, there are in Canada and the United States a large number of mines producing both zinc and lead, but they were too high to work, with the methods then available; the expense of production would have been greater than the value of the ore. Enterprise was ready, but Cost, said No. Science was inspired to new efforts, and selective flotation was invented; the ores were reduced to powder, and water introduced through them; new reagents were discovered and machinery improved, and, finally, Cost said Yes. The result has been the building up of tremendous industries.

Another example, of great interest, is found in the project which some enthusiasts have envisaged: running ocean liners into the great lakes. There is no particular difficulty

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in making deep enough canals, but Cost tells us that an ocean steamer runs at so much, not only per hour, but per mile, and they cannot afford to waste time in canals.

Another example is found in the complications of industrial hygiene. It is not so long since the manufacturer thought that heat, light, ventilation and sanitation were items upon which the least possible would be spent. The result was that work was hindered, jobs were delayed, and it is the Cost Accountant who has told him that the argument of dollars and cents was in favour of the latest proposals of industrial improvement.

Now, Governments throughout the world have greatly improved; publicity is widespread; we know exactly where to buy anything. Transportation has become better and cheaper, and markets are more easily available.

As a result of these changes, in spite of all duties, bonuses and preferentials, there is more competition. The shopkeeper finds rivals in the pages of the magazines. To meet his competitor, the business-man must sharpen his sword, and see to the shield of his cost.

There is no good talking about reducing costs, until we know what they are and what they ought to be. The baker, who wants to reduce his cost, can fire the man who puts the holes in his doughnuts, but he cannot fire the man who put the dough on the holes.

A man must know, not only all about his competitor's business, but, all about his own. The road to progress, through the reduction of cost, is very easy, if we know it.

Here is the place which you must fill in the future history of Canada, and Canadian business, in future, will succeed, or fail, as you do. The history of Canada has been, in great part, a history of enterprise, and so shall our future history be, and in that history you have a definite part to play.

The past has given us many an inspiration, and I hope the future will show us worthy of our great forebears. I hope you will remember that upon you has fallen, in part at least, the mantle of our nation-builders, and that you will be proud of your task.

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Chapter Programs, 1927-28

MONTREAL

- October 14th.—“Costs in Building Construction,” Douglas Bremner, B.Sc., Bremner, Norris & Co., Ltd., Montreal.
- October 28th.—“Relation of Cost Accounting to the General Financial Accounts,” Dr. R. L. Wright, M.A., Vice-President, Wahl Company, Limited, Toronto.
- November 10th.—“Interpretations of Costs—Erroneous and Other,” David S. Kerr, C.A., Scot. and Can.
- November 25th.—“Accounts Payable and Their Relation to Cost Results,” W. M. Wilson, Northern Electric Company, Limited, Montreal.
- November 25th.—“Budgetary Control,” H. Gilbert, C.A., Riddell, Stead, Graham & Hutchison, Montreal.
- December 9th.—“Costing in the Forestry Department,” G. C. Piché, Chief of the Forestry Service, Dept. of Lands and Forests, Quebec.
- January 27th.—“Some Misapplications of Costs,” W. S. Hulbig, General Manager, Canadian Envelope Company, Montreal.
- February 10th.—“Factory Organization,” Professor J. A. Coote, B.Sc., Faculty of Applied Science, McGill University.
- February 24th.—Application of Factory Overhead in the Steel Industry,” F. I. Greenfield, Steel Company of Canada, Montreal.
- March 9th.—“Standard Costs,” D. M. Farish, C.A., Northern Electric Company, Limited, Montreal.
- March 23rd.—“General and Cost Accounting Systems of Hydro Electric plants,” F. E. H. Gates, C.A., P. S. Ross & Sons, Montreal.
- March 23rd.—“Is Cost Accounting Worth While?” L. Rhodes, Cost Accountant, Consolidated Lithograph Manufacturing Company, Ltd., Montreal.
- April 13th.—Annual Dinner, speakers and place to be announced later.

TORONTO

Toronto's program is not yet completed, but the following addresses have been arranged:—

- October 12.—“Monthly Profit and Loss From a Standard Cost System,” D. C. Patton, Sangamo Electric Company, Ltd., Toronto.
- October 26.—“Plant Engineering Relations to Costs,” H. F. Wilson, Production Engineer, Wilson and Fessenden, Kitchener.
- October 26.—“Preparation and Administration of a Budget for Motor Industry,” J. E. Carruthers, Durant Motors of Canada, Ltd., Leaside.
- October 26.—“Budget Control,” John E. Goldring, Comptroller, Robt. Simpson Co., Ltd., Toronto.
- October 26.—“Time and Motion Studies,” Carl B. Prosser, Cost Accountant.

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- October 26.—"Factory Overhead in the Stove Business," R. Oaten, Secretary-Treasurer Gurney Foundry Co., Ltd., Toronto.
- October 26.—"Interpretation of Business Statements," H. E. Guilloye, C.A., Clarkson, Gordon & Dilworth, Toronto.
- October 26.—Standard Costs as Applied to the Drug Business," Thos. S. Jardine, Production Manager, United Drug Company, Ltd., Toronto.

HAMILTON

Hamilton's program is not yet available, though it is pretty well completed. It is proposed to hold dinner meetings on the 2nd and 4th Wednesday evenings of each month, at the Wentworth Arms Hotel at 6.30. The regular meetings will be held in the Hamilton Chamber of Commerce Rooms at 8 o'clock on the same evenings.

NEW BOOKS

The Marketing Problem. By E. T. Elbourne, A.M.I. Mech.E. Longmans Green & Company, Toronto. 216 pages, \$4.

This book is the outcome of an extensive survey in the United States by Mr. Elbourne. The treatment is non-technical throughout. Mr. Elbourne is director of marketing investigation for Shaw, Wardlaw and Company, Ltd. In a foreword to the book, Sir Josiah Stamp refers to restlessness of mind as one of the factors in the prosperity of the United States. "Even though much effort gets nowhere, there is such abundance of data, of propaganda, of statistics, that a great deal of it must contrive to get effectively into the industrial machine," he adds.

The book deals with all the important factors in marketing, such as advertising, trade associations, distribution, etc. Chapters on Budgetary Control, on Commercial Research, and on Elimination of Waste will be of special interest to those on the production end of business. It is well arranged typographically and fully indexed.

The Canadian Society of Cost Accountants
APPLICATION FOR MEMBERSHIP

Name in full	Age
Address in full	
Firm with whom engaged	
Firm's address in full	Position held
Firm's Business	
Names and addresses of two references:	
.....	
.....	
(If applicant is a Member of any Accounting Institute or Society incorporated under the authority of any Provincial Legislature, it will be sufficient to give the name and address of the Secretary of such Institute or Society.)	
To The Canadian Society of Cost Accountants, 81 Victoria Street, Toronto.	
I hereby apply to be admitted a Member of The Canadian Society of Cost Accountants and undertake if admitted to observe all the By-laws and Regulations of the Society for the time being in force.	
I enclose herewith _____ Dollars, being my Membership fee to the end of the current half year, which is to be returned to me if this application is not accepted.	
year _____	
SIGNATURE OF APPLICANT	
DATE	

